

REPORT OF EXAMINATION

OF

**BALDWIN MUTUAL INSURANCE
COMPANY, INC.**

FOLEY, ALABAMA

as of

December 31, 2016

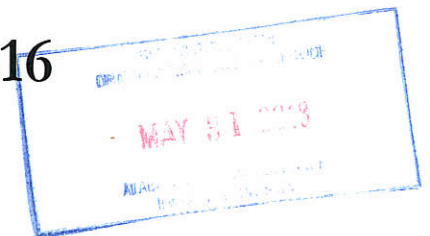


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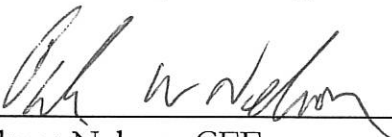
EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF BALDWIN

Palmer Nelson, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Baldwin Mutual Insurance Company, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Baldwin Mutual Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



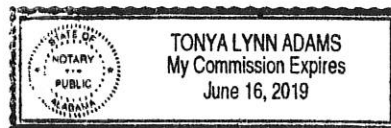
Palmer Nelson, CFE

Subscribed and sworn before me by Palmer Nelson on this 30th day of May, 2018

(SEAL)



(Signature of Notary Public)



My commission expires June 16, 2019



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
CHARLES M. ANGELL
JERRY WORKMAN

CHIEF OF STAFF
MARK FOWLER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

May 30, 2018

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2016, has been made of

**Baldwin Mutual Insurance Company, Inc.
Foley, Alabama**

at its home office located at 315 East Laurel Avenue, Foley Alabama 36535. The report of examination is submitted herewith. Where the description "The Company" appears herein, without qualification, it will be understood to indicate Baldwin Mutual Insurance Company, Inc.

SCOPE OF EXAMINATION

We have performed an examination of Baldwin Mutual Insurance Company, a single state insurance company. The last examination covered the period of January 1, 2011 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2016.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Code of Alabama, 1975, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims handling, advertising and marketing, policy forms and underwriting, policyholders' complaints, compliance with producers' licensing requirements, and privacy policies and practices.

The Company's annual statements for each year under examination were compared with the corresponding general ledger account balances. During the period covered by the examination, the Company was audited by Russell, Thompson, Butler & Houston (CPA's). The CPA's workpapers were used in the examination as deemed appropriate by the examiners.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2016.

ORGANIZATION AND HISTORY

The Company was incorporated on July 21, 1921, under the laws of the State of Alabama, ALA CODE § 27-27-15 (1975), Domestic mutual insurance - Authorization to transact business, as "Baldwin Mutual Insurance Company Incorporated."

The objectives or purposes of the incorporation, as set forth in the Certificate of Incorporation, were to issue policies and enter into contracts of insurance and to reinsure or accept reinsurance on any portion thereof for fire, liability, disability, automobile, steam boiler, use and occupancy, title and miscellaneous insurance, excepting life insurance.

The Company was organized as a mutual insurance and continues to operate under the mutual plan with no capital stock. No amendments to the Articles of Incorporation or By-Laws occurred during this examination period.

At December 31, 2016, the Company's unassigned funds reported in the 2016 Annual Statement was \$9,304,399.

MANAGEMENT AND CONTROL

Members

The company is a mutual company with ultimate control vested in its policyholder members.

Board of Directors

Members elected to the Board of Directors by the members and serving at December 31, 2016, were as follows:

Director	Residence	Principal Occupation
Arthur Abel Holk	Foley, Alabama	Chairman of the Board, Baldwin Mutual Insurance
Clair Dean Hansen	Foley, Alabama	Retired county commissioner, Treasurer
Frances Holk-Jones	Foley, Alabama	Agent- State Farm Insurance, Secretary
Kevin Timothy Russell	Fairhope, Alabama	Executive Vice President, Baldwin Mutual Insurance Company
Carl Jackson Jones	Foley, Alabama	President, Baldwin Mutual Insurance Company
Carl Emery Johnson	Foley, Alabama	Certified Public Accountant
Grayson Davis Moore	Gulf Shores, Alabama	Insurance field representative, Baldwin Mutual Insurance Company
Richard Gustav Reimer	Perdido Beach, Alabama	Retired, Alcatel-Lucent and Alabama National Guard
Clark Joiner Stewart	Magnolia Springs, Alabama	Radio Owner Station, Principal

Committees

No committees of the board were appointed during the examination period.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2016 were as follows:

Officers	Title
Carl Jackson Jones	President
Clair Dean Hansen	Treasurer
Frances Holk-Jones	Secretary
Kevin Timothy Russell	Executive Vice President

Conflict of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no material conflicts noted.

Dividends to Policyholders

The Company paid no dividends to policyholders during the examination period.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments to either since the last examination.

Minutes of the meetings of the Stockholders and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as otherwise noted in this Report.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration and Reporting

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA CODE § 27-29-1 (1975). Baldwin Mutual Insurance Company was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made from time to time by the registrant.

Organizational Chart

Not applicable.

Transactions and Agreements with Affiliates

The Company disposed of its subsidiary title insurance company during the examination period and had no agreements with any affiliates at year end 2016.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2016, the Company was a named insured under a Standard Form No. 25, issued by U.S. Specialty Insurance Company, which exceeded the suggested minimum requirements for fidelity bond coverage according to the NAIC *Financial Condition Examiners Handbook*.

In addition to the fidelity bond, the Company also maintained the following insurance policies to protect itself from hazards to which it may be exposed:

Commercial Liability Umbrella Policy
Private Company Reimbursement Insurance Policy
Employment Practices Liability Insurance Policy
Business Office Policy
Commercial Auto Policies

The coverages and limits on these policies were reviewed during the course of the examination and appeared to reasonably protect the Company's interests.

PENSIONS AND STOCK OWNERSHIP

Compliance with 18 U. S. C. 1033

According to ALA. ADMIN. CODE 482-1-146-.11 (2009),

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

The Company requires each of its employees to complete a questionnaire annually regarding Section 1033. There were not any new hires during the examination period. The Company was determined to be in compliance.

SPECIAL DEPOSITS

At December 31, 2016, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$100,000	\$100,000

MARKET CONDUCT ACTIVITIES

Territory

At December 31, 2016, the Company was licensed to transact business in the State of Alabama. The Certificate of Authority was inspected for the period under review, and no exceptions were noted.

Plan of Operation

The Company marketed property and casualty insurance in the State of Alabama. The Company had approximately 20% of its in-force policies in Baldwin and Mobile Counties with the rest of the business spread across the State. Products consisted of actual cash value policies for farm, home, and manufactured housing. The Company also wrote liability, a small amount commercial policies, and flood insurance coverage that was 100% reinsured by the Federal Flood insurance Program.

Policy Forms, Rates and Underwriting Practices

Rates and Forms

The Company appropriately filed its rates and forms with the Alabama Department of Insurance (ALDOI). The examination indicated that all the forms and endorsements used in Alabama during the examination period had been properly filed and approved by the ALDOI. The Company's rates that were in use were filed with the ALDOI.

Underwriting

The examiner selected samples of direct written premium, insured requested cancellations, Company requested cancellations during the examination period. No issues were noted during the review.

Advertising and Marketing

The Company's management indicated that the only advertising materials used during the examination period was one radio advertisement. The review of the advertisement did not reveal misrepresented policy benefits, make unfair or incomplete comparisons with other policies, or make false, deceptive or misleading statements or representations.

The Company's web site www.baldwinmutual.com was reviewed and found to include the following links: Products, Pay on-line, About the Company, and Documents. The web site identified the home office address, P. O. Box, telephone number, and fax number.

Claims Handling

Paid Claims

A random sample of 107 Alabama paid claims paid during the examination period from a population of 930 were selected for review. The review included a time study of claim payments and claim acknowledgements. A review of the completeness of documentation was also completed for the sample. The Company's paid claims were settled in accordance with the policy provisions, applicable statutes and regulations.

Denied claims

A random sample of 82 denied or closed-without payment claims within the examination period were selected from a population of 207. The review involved a determination of whether the claims were properly denied and whether the reasons for the denials were properly documented and provided to the claimants. The Company's denied claims were settled in accordance with the policy provisions, applicable statutes and regulations.

Closed Litigated Claims

The examiners also reviewed the entire population of Alabama closed litigated claims during the examination period, a total of six. The reasons for the litigated claims did not point towards any problematic claims handling practices.

Compliance with Producers' Licensing Requirements

Producer Appointments

The Company had one licensed and appointed producer during the examination period. The producer was also a Director of the Company.

The Company recorded direct written premiums for flood insurance during the year 2016 in the amount of \$68,229. The premiums were 100% ceded to the National Flood Insurance Program. A commission in the amount of \$3,116 was paid to a Director of the Company for business produced. The Company was not in compliance with ALA. CODE § 27-27-26 (a) (1975), which states:

No officer or director of a domestic insurer, and no member of any committee or employee of a domestic insurer who is charged with the duty of investing or handling the funds of the insurer, shall do any of the following:

(4) Take or receive to his or her own use any fee, brokerage, commission, gift, or other consideration for, or on account of, any such transaction made by, or on behalf of, the insurer.

Terminations

The Company did not have any terminated producers during the examination period per information provided by the Company's managers. A review of the NAIC SBS indicated that there were no termination producers during the examination period.

Policyholders' Complaints

During the examination period, there was one complaint from the Alabama Department of Insurance documented in the Company's complaint register. The Company appropriately maintained the following information in its complaint register: line of business, function and reason for the complaint. The Company's responses fully addressed the issues raised, and the complaint was appropriately resolved within the required timeframe. Based on the review of the Company's

complaint procedures, it was determined that the Company had sufficient methods for the distribution of and obtaining and recording responses to complaints.

Privacy Policies and Practices

The Company's Privacy Notice disclosed the types of information collected, the way the information is used, the manner in which information is collected and how the information is protected. The Privacy Notice also specifically stated the customers' rights, and that the Company does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. It was determined the Company's policies, practices and procedures regarding the protection and disclosure of non public personal information of consumers and customers were in compliance with ALA. ADMIN. CODE 482-1-122 (2001).

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Admitted Assets	\$11,964,226	\$12,043,386	\$11,196,884
Liabilities	\$2,659,827	\$3,598,874	\$3,735,844
Gross Written Premium	\$4,784,138	\$5,393,945	\$6,277,278
Net losses Incurred	\$1,057,565	\$1,081,007	\$1,360,517
Net Loss Adjustment	\$47,757	\$53,184	\$(3,426)
Surplus as regards policyholders	\$9,304,399	\$8,444,512	\$7,461,040

REINSURANCE

Reinsurance Assumed

The Company had no reinsurance assumed.

Reinsurance Ceded

The Company has historically had a catastrophe excess of loss agreement and a quota share agreement in place to limit its loss exposure. The terms of the agreements differ from year-to-year. The catastrophe excess of loss agreements expired each July 1, and each was replaced by a reinsurance agreement for the successive contract year. The following is a discussion of the ceded reinsurance as of December 31, 2016.

Liability Reinsurance

The Company had liability reinsurance coverage during the examination period with General Reinsurance Corporation, No. 8993. The original agreement was executed June 13, 2002 for property and liability coverage on new and renewal policies in force January 1, 2002. Endorsement No. 3, executed April 14, 2005, terminated Exhibit A, property coverage. Endorsement No. 11 was made effective July 1, 2012 with respect to claims and losses resulting from occurrences taking place at and after the effective date for liability coverage. The Agreement for Reinsurance was last affected by Endorsement No. 14 on July 1, 2015 that revised the reinsurance premium.

The schedule of reinsurance indicated the following.

Class of Business	Company Retention	Limits of Liability of the Reinsurer	
		First Excess Cover	Second Excess Cover
Liability Business	\$50,000	\$250,000	\$200,000

For the purpose of determining the Company retention and the limits of liability of the Reinsurer, the limits of liability at the Company with respect to any one policy shall be deemed not to exceed:

General Liability (Habitational Only) Combined Single Limit	\$300,000 each occurrence
Comprehensive Personal Liability	\$300,000 each occurrence

Catastrophe Excess of Loss Reinsurance

The Company had a catastrophe reinsurance program throughout the examination period. As of Year end 2016, the program consisted of two excess of loss reinsurance agreements and a reinsurance reinstatement premium reinsurance agreement. The agreements covered the Company's business classified as property. Each agreement expired July 1 each year and was replaced by an agreement for the successive contract year. At the examination date, the Company had a program involving four excess layers collectively providing catastrophe coverage up to \$8 million of losses from any one event. The Company's retention was \$425,000.

Layer 1 reimbursed the Company for property losses incurred by the Company from any one event exceeding \$425,000 up to \$425,000. Layer 2 reimbursed the Company for property losses from any one event exceeding \$850,000 up to a limit of \$2.65 million. Layer 3 reimbursed the Company for property losses from any one event

exceeding \$3.5 million up to a limit of \$3.5 million. Layer 4 reimbursed the Company for property losses from any one event exceeding \$7 million up to a limit of \$1 million. Each layer of reinsurance began where the previous layer ended with no gaps of un-reinsured risk, with the exception of the primary layer retention. The reinsurance was obtained through an intermediary, Willis Re, Inc. The reinsurers and percentage of participation in each layer was as follows at December 31, 2016.

Reinsurer	Layer 1	Layer 2	Layer 3	Layer 4
American Standard Insurance Company of Wisconsin, Inc.	5%	7%	7%	7%
Everest Reinsurance Company	40%	7.5%	7.5%	7.5%
Odyssey Reinsurance Company	15%	10%		9.5%
Qatar Reinsurance Company Limited	10%	25%	25%	25%
Renaissance Reinsurance Company U. S.		20%	20%	15%
Shelter Mutual Insurance Company		5%	5%	5%
Lloyd's Syndicate 2791*	5%	5.5%	15.5%	11%
R+V Versicherung, A. G.	25%	20%	20%	20%

*A portion of the risk ceded to Lloyd's Syndicate 2791 in the excess of loss property catastrophe agreement covering layers 2, 3, and 4 was assigned to Lloyd's Syndicate 2010 and Houston Casualty Company.

The Company filed a revised 2016 Schedule F with the Department. The examiner verified that each of the reinsurers that were reported in the revised filing as authorized reinsurers were approved reinsurers by the Alabama Department of Insurance. The Company reported the following reinsurers were unauthorized in the Company's revised 2016 Annual Statement Schedule F:

- Qatar Reinsurance Company Limited
- R+V Versicherung, A. G.
- American Family Mutual Insurance Company
- American Standard Insurance Company

ACCOUNTS AND RECORDS

Location of Records

The Company maintained its records electronically and utilized an external accounting firm to perform its accounting activities. The accounting activities performed by the external accounting firm were coordinated with and interfaced with functions performed by the Company's staff.

During a review of the Company's information technology systems, the controls governing record retention and storage and business continuity were reviewed. It was determined the Company had entered into a cloud based hosting agreement with a third party and was maintaining business records outside the state in Virginia. This is not in accordance with ALA. CODE § 27-27-29, (a) (1975) which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Examination Requests

The Company did not respond to seventeen of the examiners' forty-two total information requests within ten working days, as is required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states: "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner... ."

The Examination Planning Questionnaire was sent to the Company prior to the examination field work taking place. The examiners requested that the Company complete and provide the questionnaire to the examiners. The Company could not or would not provide the planning information which was not in compliance with ALA. CODE § 27-27-29 (a) (1975) which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the State Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on the financial statements reflect any examination adjustments to the amount reported in the annual statement and should be considered an integral part of the financial statements.

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Statement of Liabilities, Surplus and Other Funds	16
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**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

BALDWIN MUTUAL INSURANCE COMPANY, INC.
STATEMENT OF ASSETS
For the Year Ended December 31, 2016

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Prior Year Net Admitted Assets</u>
ASSETS				
Bonds (Note 1)	\$ 4,982,138	\$ -0-	\$ 4,982,138	\$ 4,977,207
Common stocks	31,590		31,590	330,391
Mortgage loans on real estate:				
First liens	40,957		40,957	50,488
Real Estate:				
Properties occupied by the company	390,730		390,730	419,345
Properties held for the production of income	73,974	100	73,874	73,874
Cash, cash equivalents and short-term investment	5,805,092		5,805,092	5,562,317
Investment income due and accrued	7,039		7,039	6,288
Uncollected premiums and agents' balance in the course of collection	19,110	3,971	15,139	23,272
Deferred premiums, agents' balances and installments booked but deferred and not yet due	317,035		317,035	348,350
Amounts recoverable from reinsurers				58,550
Current federal and foreign income tax recoverable and interest thereon	4,541		4,541	
Net deferred tax asset	116,889		116,889	
Electronic data processing equipment and software				16,500
Furniture and equipment, including health care delivery assets	40,729	40,729		
Aggregate write-ins for other than invested assets	<u>242,320</u>	<u>63,118</u>	<u>179,202</u>	<u>176,804</u>
TOTAL ASSETS	\$ <u>12,072,144</u>	\$ <u>107,918</u>	\$ <u>11,964,226</u>	\$ <u>12,043,386</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
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BALDWIN MUTUAL INSURANCE COMPANY, INC
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2016

	<u>Current Year</u>	<u>Prior Year</u>
Liabilities:		
Losses	\$ 274,626	\$ 334,199
Loss adjustment expenses	27,650	45,783
Other expenses	37,637	26,430
Taxes, licenses and fees	3,947	3,594
Current federal and foreign income taxes		526,353
Unearned premiums	2,168,663	2,451,348
Advance premiums	121,298	134,583
Ceded reinsurance premiums payable	-12,022	-24,536
Amounts withheld or retained by company for account of others	29,162	29,135
Provision for reinsurance		1,000
Capital notes	8,866	70,985
Total Liabilities	\$ 2,659,827	\$ 3,598,874
Capital and Surplus:		
Unassigned funds (surplus)	9,304,399	8,444,512
Surplus as regards policyholders	\$ 9,304,399	\$ 8,444,512
Total	\$ 11,964,226	\$ 12,043,386

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

BALDWIN MUTUAL INSURANCE COMPANY, INC
STATEMENT OF INCOME
For the Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Premiums earned	\$ 4,286,570	\$ 4,766,695	\$ 5,131,851
Deductions:			
Losses incurred	\$ 1,057,565	\$ 1,081,007	\$ 1,360,517
Loss adjustment expenses incurred	47,757	53,184	-3,426
Other underwriting expenses incurred	<u>2,082,285</u>	<u>2,137,396</u>	<u>2,401,019</u>
Total underwriting deductions	\$ <u>3,187,607</u>	\$ <u>3,271,587</u>	\$ <u>3,748,110</u>
Net underwriting gains/(loss)	\$ 1,098,963	1,495,108	1,373,741
Investment income:			
Net investment income earned	-29,925	52,973	15,975
Net realized capital gains (losses) less capital gains taxes	\$ <u>-433,066</u>	\$ <u>-27,378</u>	\$ <u>-0-</u>
Net investment gains (loss)	\$ <u>-462,991</u>	\$ <u>25,595</u>	\$ <u>15,975</u>
Other income:			
Finance and service charges not included in premiums	52,856	59,910	61,680
Aggregate write-ins for miscellaneous income	<u>5,137</u>	<u>18,382</u>	<u>51,300-</u>
Total other income	\$ <u>57,993</u>	\$ <u>78,292</u>	\$ <u>112,980</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	693,965	1,598,995	1,502,696
Federal and foreign income taxes incurred	\$ <u>343,315</u>	\$ <u>528,483</u>	\$ <u>480,566</u>
Net income (loss)	\$ <u><u>350,650</u></u>	\$ <u><u>1,070,512</u></u>	\$ <u><u>1,022,130</u></u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

BALDWIN MUTUAL INSURANCE COMPANY, INC
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surplus as regards policyholders	\$ 8,444,512	\$ 7,461,040	\$ 6,494,663
Net income	\$ 350,650	\$ 1,070,512	\$ 1,022,130
Change in net unrealized capital gains (losses)	405,571	-83,874	-28,059
Change in net deferred income tax	116,889		
Change in nonadmitted assets	-14,223	-6,166	-37,794
Change in provision for reinsurance	\$ 1,000	\$ 3,000	\$ 10,100
Change in surplus as regards policyholders	\$ 859,887	\$ 983,472	\$ 966,377
Surplus as regards policyholders, December 31 current year	\$ <u>9,304,399</u>	\$ <u>8,444,512</u>	\$ <u>7,461,040</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$4,987,142

The captioned amount is the same as reported in the Company's 2016 Annual Statement.

The Company did not report the accurate Rate Used To Obtain the Fair Value in Column 8, the accurate Fair Value in Column 9 and the accurate Par Value in Column 10 for its bonds in the 2016 Annual Statement Schedule D - Part 1 as required by the NAIC *Annual Statement Instructions*.

Analysis of Changes to Surplus			
Capital and Surplus at Dec. 31, 2016 per Annual Financial Statement			\$9,304,399
	<u>Increase</u>	<u>Decrease</u>	
Net increase (or decrease)	\$0	\$0	\$ <u>0</u>
Capital and Surplus at Dec. 31, 2016 after adjustment			<u>\$9,304,399</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's statutory financial statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained a letter of representation from management and reviewed the external auditors' summary of pending litigation as of December 31, 2016. No unreported contingent liabilities were noted, and all pending litigation against the Company, at December 31, 2016, appeared to be within the ordinary course of its business.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the following exceptions.

Providing Information in Response to Examination Requests

The previous examination indicated that the Company did not provide information requested within ten business days as required by ALA. ADMIN. CODE 482-1-118-

.06 (1999), which states: "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner." This examination resulted in the same examination findings.

COMMENTS AND RECOMMENDATIONS

Compliance with Producer Licensing Requirements – Page 9

It is recommended that the Company not pay commissions to an Officer or Director of the Company in compliance with ALA CODE § 27-27-26(a)(1975), which states:

No officer or director of a domestic insurer, and no member of any committee or employee of a domestic insurer who is charged with the duty of investing or handling the funds of the insurer, shall do any of the following:

(4) Take or receive to his or her own use any fee, brokerage, commission, gift, or other consideration for, or on account of, any such transaction made by, or on behalf of, the insurer.

Accounts and Records – Page 12

It is recommended that the Company maintain its records in its home office in accordance with ALA. CODE § 27-27-29, (a) 1975 which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is again recommended that the Company provide information requested by the examiners within ten working days for request made by personnel representing the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states: "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner... ."

It is recommended that the Company provide all information requested by the examiners in accordance with ALA. CODE § 27-27-29 (a) (1975) which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets,

transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Bonds – Page 14

It is recommended that the Company report the accurate Rate Used To Obtain the Fair Value in Column 8, the accurate Fair Value in Column 9 and the accurate Par Value in Column 10 for its bonds in the 2016 Annual Statement Schedule D - Part 1 as required by the NAIC *Annual Statement Instructions*.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2016 examination date was done. The following item was noted during this review.

The Company invested \$450,000 into Thriveway, LLC (Thriveway), September 18, 2017. The Company’s ownership interest in Thriveway is 45%. According to Company representations and Thriveway’s promotional materials, Thriveway’s business is providing peer counseling to teens. Thriveway promotes the historical accomplishments of the Jennifer Claire-Moore Foundation and indicates in its promotional materials that it intends to carry out a similar mission and plan on a broader scale. Frances Holk-Jones is a director of the Foundation and serves on an advisory committee for Thriveway. She is also a director of the Company. Frances Holk-Jones also invested in Thriveway, LLC and she has a 5% ownership interest. Frances Holk Jones’ husband is a board member and President of the Company. Her father is Chairman of the Board and her son is also a board member. The September 18, 2017 board minutes indicate that the board approved the investment in Thriveway, LLC and that Frances and the three board members that she is related to abstained from voting on the approval of the investment because each were related parties.

At year end 2017, the investment’s book/adjusted carrying value of the investment in Thriveway, LLC was \$350,447. Due to goodwill being nonadmitted in the statutory financial statement, the net admitted value of the investment was \$180,947.

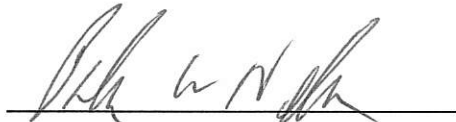
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Palmer Nelson, CFE, Charles Turner, CISA, Theo Goodin, MCM, and William Smith, Examiners; and Brent Sallay, FCAS, MAAA, and Sonya Overholser, consulting actuaries with Taylor-Walker & Associates, Inc. represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Palmer Nelson', is written over a horizontal line.

Palmer Nelson, CFE
Examiner-in-charge
Alabama Department of Insurance